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TO RUEHC/SECSTATE WASHDC IMMEDIATE 4927
INFO RUEHQ/T/AMEMBASSY QUITO 2360
RUCNMER/MERCOSUR COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEKJCS/SECDEF WASHDC
RUEAIIA/CIA WASHDC
RHEHNSC/NSC WASHDC

UNCLAS SANTIAGO 000447

STATE PLEASE PASS TO USTR KATE DUCKWORTH
STATE PLEASE PASS TO FEDERAL RESERVE TOM CONNORS
TREASURY FOR BLINDQUIST
COMMERCE FOR KMANN

SIPDIS

E.O. 12958: N/A

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SUBJECT: CHILE: ECONOMIC HIGHLIGHTS APRIL 17 - MAY 8

REFS: SANTIAGO 368 AND PREVIOUS

¶1. SUMMARY: This continues a series of updates on major developments in Chile's economy. Economic activity fell for the fifth straight month, contracting by a less than expected 0.7%. The

unemployment rate increased for the third period in a row to 9.2%. Annual inflation fell to 4.5%, resuming its downward trend. The Central Bank cut the key interest rate to 1.25%, a reduction of 700 basis points since the beginning of the year. The GOC launched a \$237 million initiative to combat unemployment. Chile's trade surplus (\$774 million) was greater than expected in April. By May 8, copper prices leveled off, the Peso rose against the Dollar, and the stock market made significant gains. END SUMMARY.

Economic Activity Falls For Fifth Straight Month

¶2. On May 5, the Central Bank reported the monthly economic activity indicator (Imacec) contracted by 0.7% in March 2009 compared with the same month in 2008. The reduction was less than expected and follows a fall of 3.9% in February 2009. It is the fifth month in a row to show a contraction. The Imacec is regarded as a proxy for GDP growth in Chile, as it includes 90% of the same goods and services used to calculate GDP. Industrial activity was hardest hit, contracting 7.1% in March. However, electricity generation lead sectors of growth with an increase in activity of 2.6%. Many experts hope February's Imacec marked the trough of Chile's economic slow-down.

Unemployment Rises For Fourth Period In A Row

¶3. The National Statistics Institute (INE) reported April 30 that the national unemployment rate climbed to 9.2% during January - March 2009 (from 8.5% during December 2008 - February 2009). This is the fourth time in a row the unemployment rate has increased. The rate marked an increase in 12 of Chile's 15 regions, hit double digits in half of Chile's 33 largest cities (breaching 15% in three of those cities), and rose to 9.4% in Santiago.

Inflation Resumes Downward Trend

¶4. On May 7, the INE reported the Consumer Price Index decreased in April by 0.2% compared with March. This marked a return to negative inflation, which has marked 5 out of 6 of the last months. The

CPI's annualized growth rate fell to 4.5%. The CPI has decreased 0.9% since the start of 2009. The decrease in the CPI was credited to falling prices in clothing and footwear as well as food products.

Cut In Key Interest Rate For Fifth Straight Month

¶ 15. The Central Bank cut the key interest rate (monetary policy rate) by 50 basis points bringing it to 1.25% on May 7. Since the beginning of the year, when the monetary policy rate was at 8.25%, the Central Bank has reduced the rate five months in a row, by a total of 700 basis points. The Central Bank justified the cuts noting continuing increases in unemployment, decreases in economic activity, and tightening lending conditions. Experts expect further cuts -- perhaps below 1% -- in the future.

GOC Launches Major Employment Initiative

¶ 16. On May 6, President Bachelet announced draft legislation that would implement six measures aimed at sustaining current employment levels. Many experts fear Chile will reach a double-digit, national unemployment rate in the coming months. The initiative offers incentives to companies to promote training for employees, rather than firing them. If Congress approves the legislation, the measures will be phased in over the next 12 months on a temporary basis. It is hoped that they will benefit up to 125,000 workers and cut the future unemployment rate by 1.5%. The Finance Minister noted the initiative will cost \$237 million, of which the majority will be covered by a national unemployment insurance fund (FSC) comprised of contributions from the GOC, businesses, and employees.

Trade Surplus Greater Than Expected

¶ 17. Chile's trade surplus was \$774 million in April, greater than most experts expected. However, the total was down from March's surplus of \$950 million, and more than 51% lower than the surplus in April 2008. Chile's exports in April totaled \$4 billion (40% less than the year before) and imports totaled \$3.2 billion (almost 59% less than in April 2008).

Copper Prices Level Off

¶ 18. On the London Metals Exchange, copper closed at approximately \$2.15/pound on May 8 (compared to a close of \$2.14/pound on April 17).

Chilean Peso Rises Against Dollar

¶ 19. On May 8, the observed exchange rate closed at approximately 563 Chilean Pesos to 1 U.S. Dollar (an appreciation of about 3% from the close on April 17).

Stock Market Makes Significant Gains

¶ 10. The IPSA closed at 2906.17 on May 8, up 8.6% on the close of April 17.

SIMONS